

4Q23

Chicago Suburban Office Market Report

NEWMARK

Market Observations

Economy

- Chicago's unemployment rate is slightly higher than the national average and job growth has slowed in the last year. Chicago's unemployment rate increased during the last several months losing any gains made in the first half of 2023.
- Office-occupying or adjacent industries saw mixed results, with financial activities experiencing a moderate gain, while business and professional services and information saw significant declines for the second quarter in a row.

Major Transactions

- FAA signed the largest lease of the quarter, contracting its footprint by 40%, in a deal to move into 110,000 SF at O'Hare Gateway Center.
- Several properties traded hands this quarter, although at a steep discount. 2300 Cabot Drive in Lisle was purchased in an auction by Urban Commercial Property Group for \$8M.
- 930 National Parkway in Schaumburg was purchased by the National India Hub Foundation for \$3.5M and has planned to turn the office building into a community center, inline with the trend of suburban office buildings being converted into other uses.

Leasing Market Fundamentals

- Leasing volume fell to the lowest point of the year during the fourth quarter as tenants signed leases for smaller spaces. Quarter-over-quarter vacancy increased 50 basis points to 25.2%, but year over year, that increase was only 10 basis points.
- The sublease market in the suburbs has not seen the large jump in availability that has plagued the Central Business District market as tenants have either renewed or waited out lease expirations.

Outlook

- The suburbs continue to face an uphill battle as owners struggle with financing challenges which continue to threaten deals and tenants battle work-from-home trends. The Suburban market has a surplus of inventory which will need to be reduced to maintain a competitive market.
- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- Chicago has always been able to ride the waves of the market, but with no surge in demand for office space expected to return, the market will have to scrape by with lower demand and be creative.

1. Economy
2. Leasing Market Fundamentals

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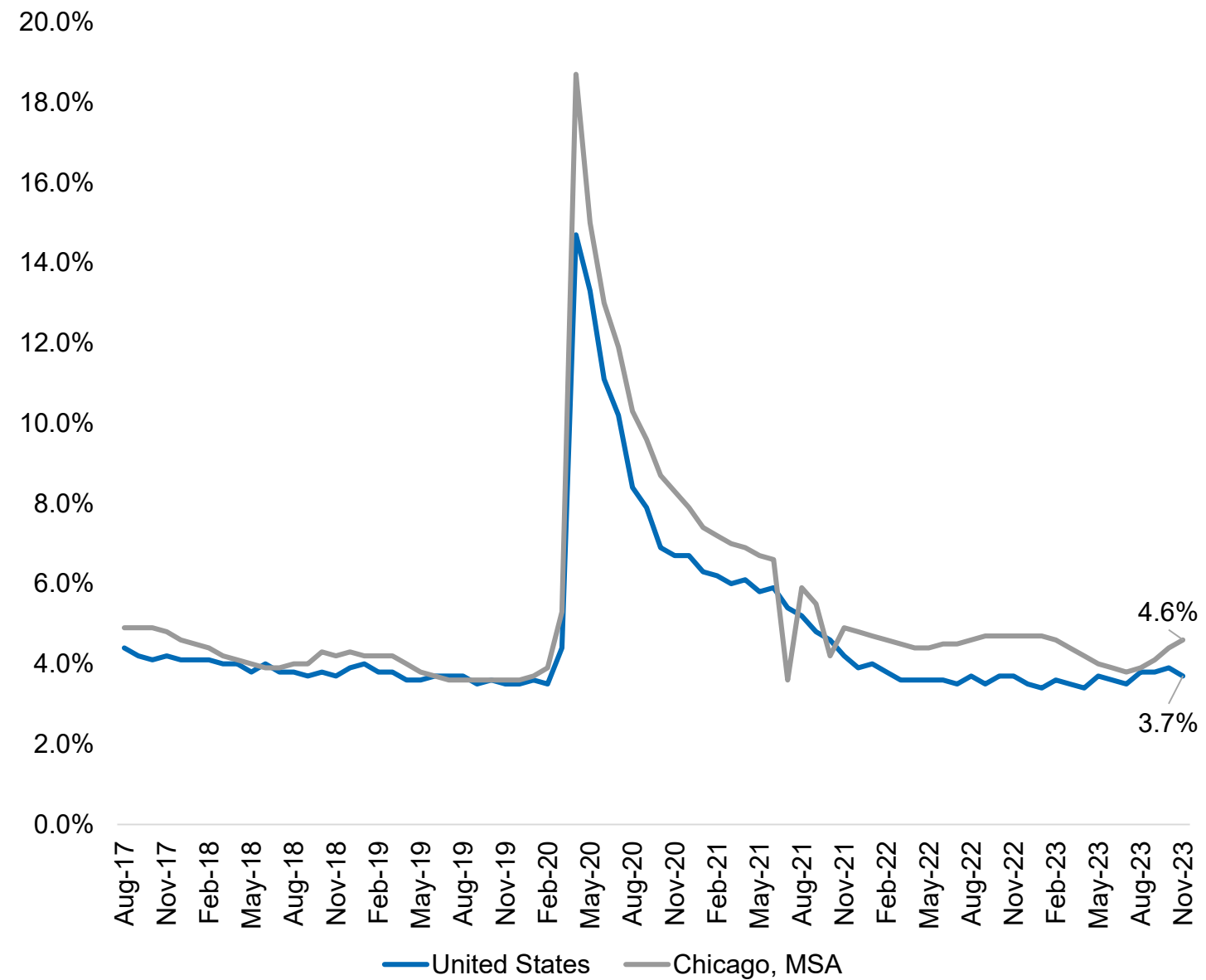
Economy



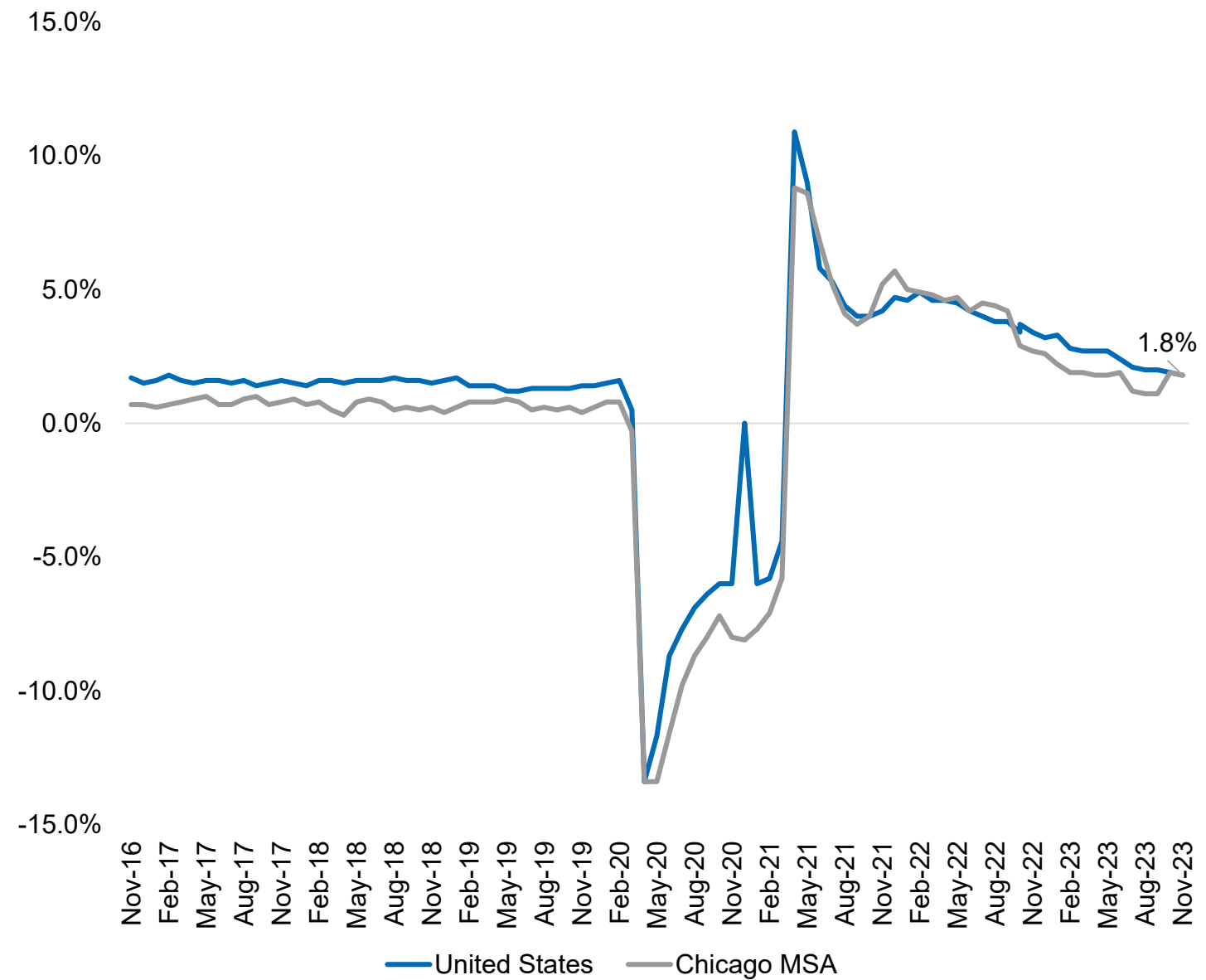
Metro Employment Trends Signal A Slowing Economy

Chicago’s unemployment rate is typically slightly higher than the national average, and job growth has slowed in the last year. Persistently high inflation and increasing interest rates are placing stress on the labor market. Chicago’s unemployment rate increased over the past several months losing any gains it had made in the first half of 2023.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



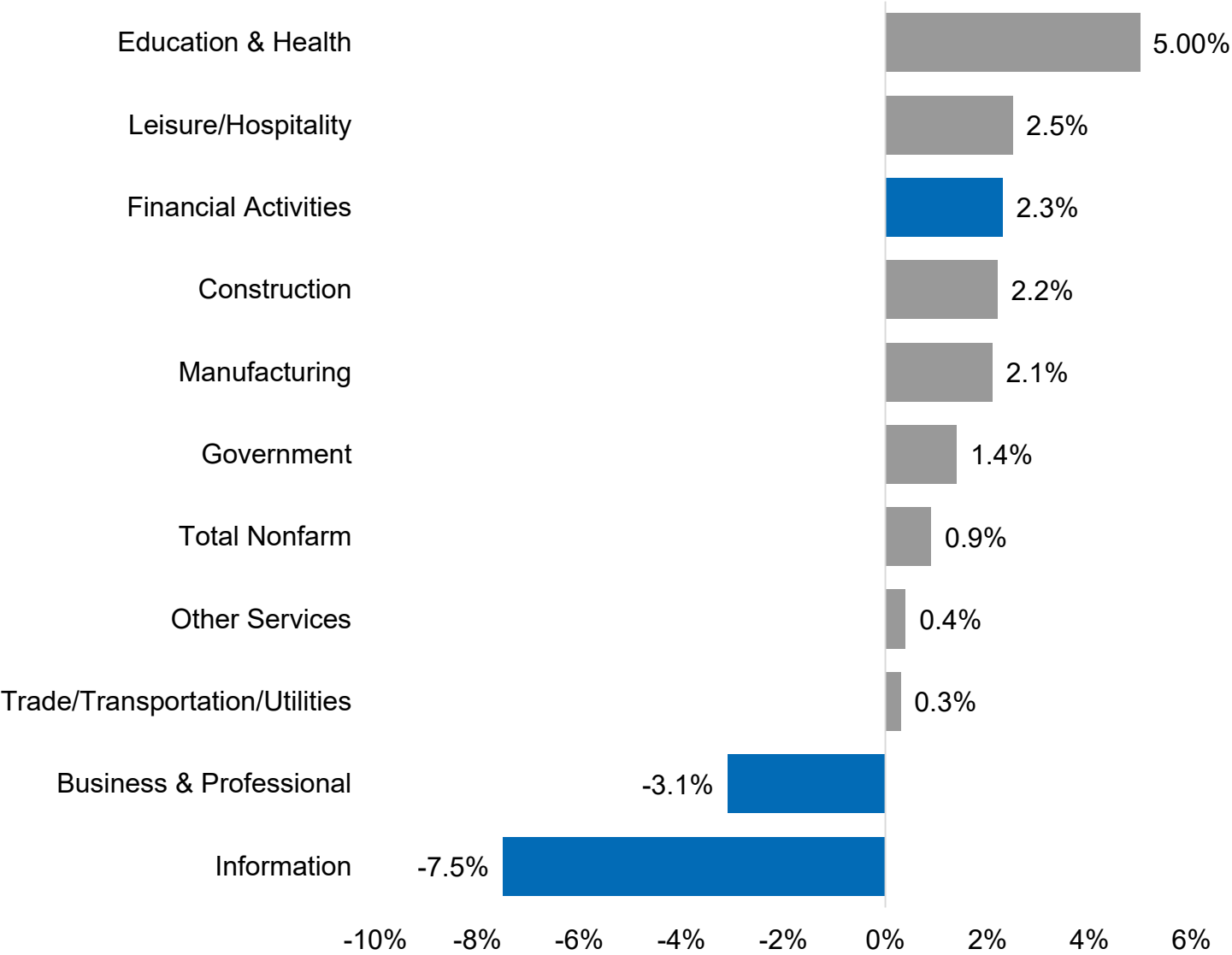
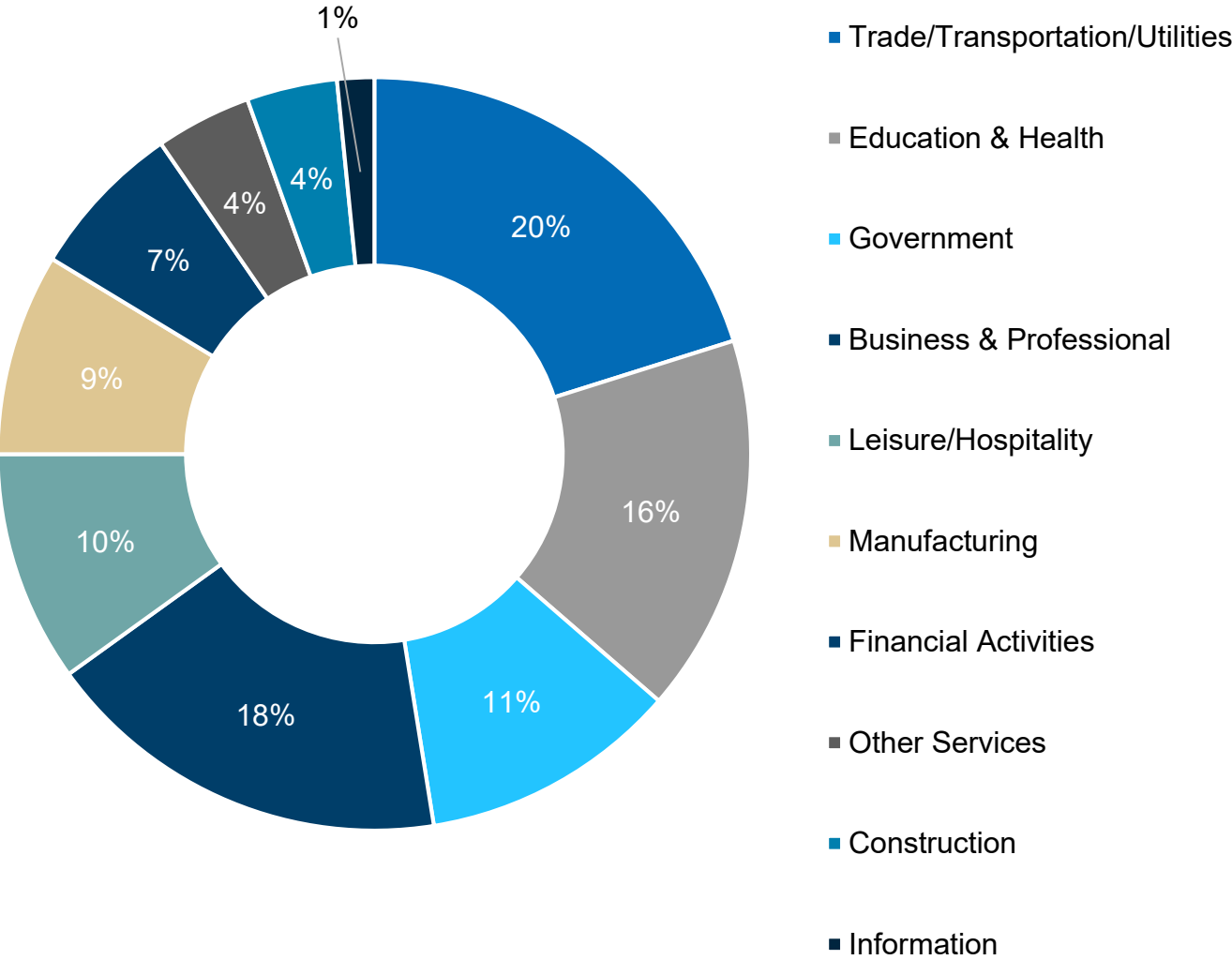
Source: U.S. Bureau of Labor Statistics, Chicago MSA

Job Growth Driven in Large Part by Services Still Making Up for Pandemic Losses

The education & health sector led all industries in regional annual job growth. Office-occupying or adjacent industries saw mixed results, with financial activities experiencing a moderate gain, while business and professional services and information saw significant declines for several quarters in a row. In some cases, office tenants are contracting spaces due to the reduction in staffing.

Employment by Industry, November 2023

Employment Growth by Industry, 12-Month % Change, November 2023

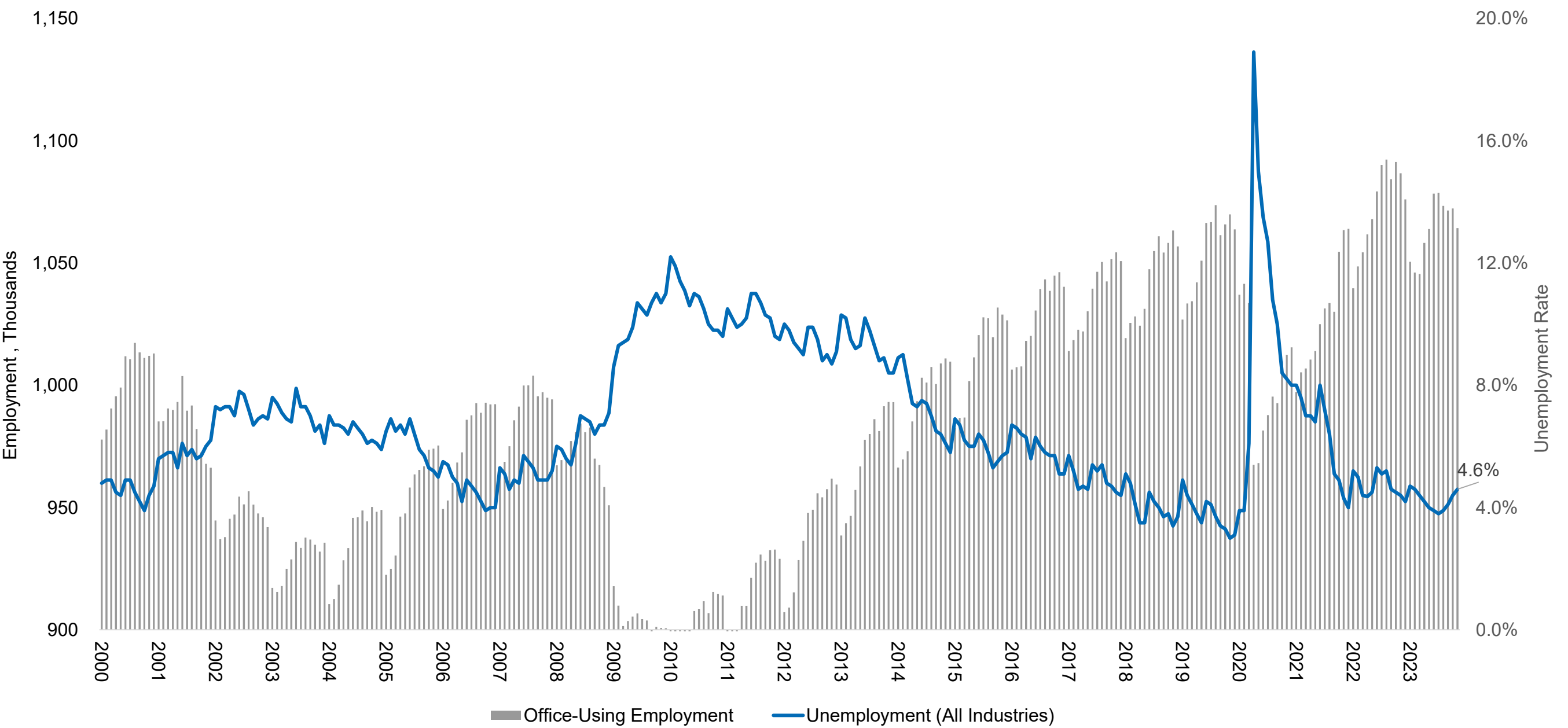


Source: U.S. Bureau of Labor Statistics, Chicago MSA

Overall Office-Using Employment Holds Steady

The number of office jobs has rebounded to pre-pandemic levels but fallen slightly year over year.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Chicago MSA
Note: *Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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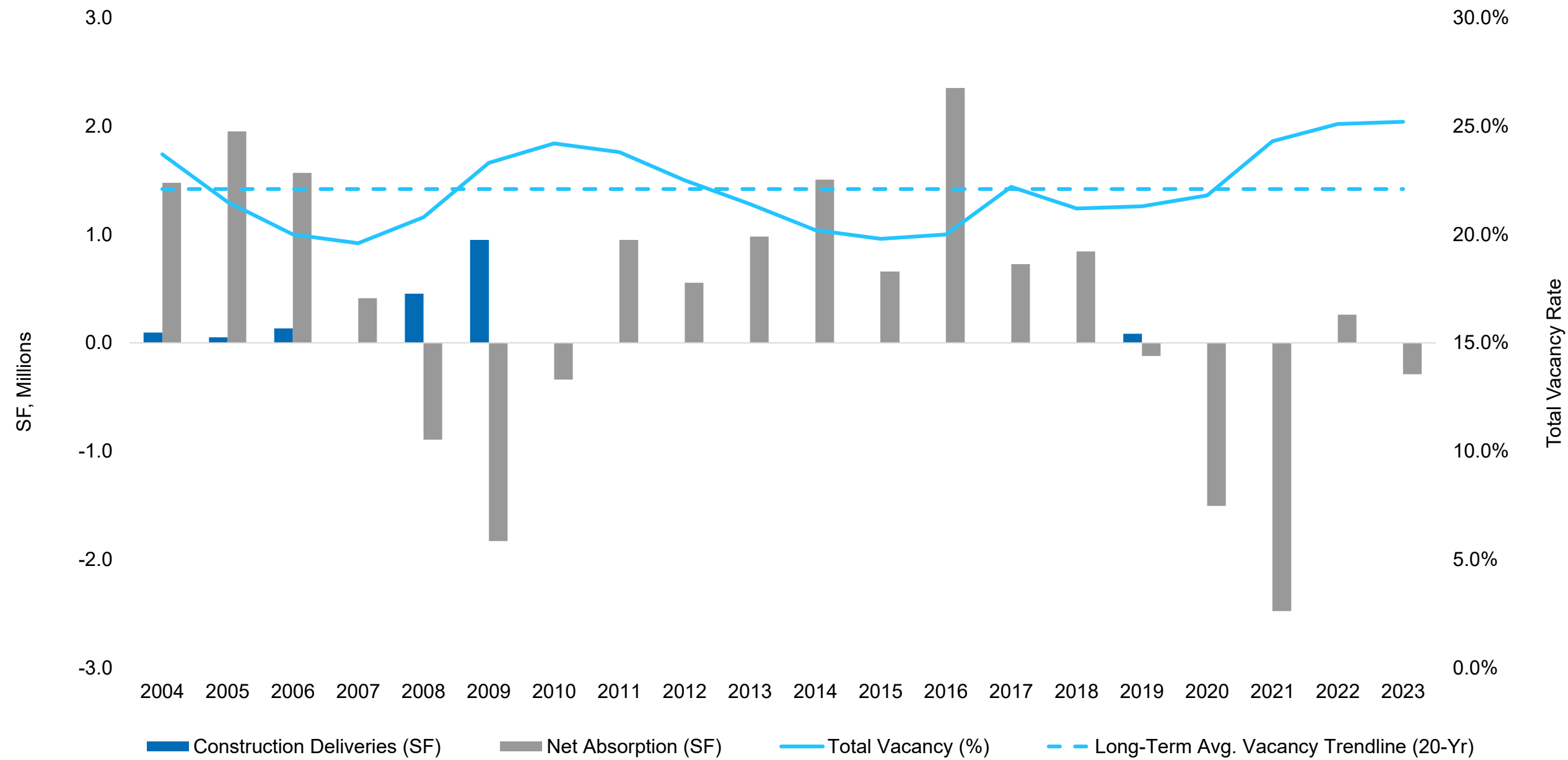
Leasing Market Fundamentals



Vacancy Dips For the Quarter, Ending 2023 at New High

Quarter-over-quarter vacancy increased 10 basis points to 25.2%, but year over year, vacancy has increased was 20 basis points. Year-to-date absorption dipped to negative 289,389 SF due to contractions by tenants across the suburbs for the year. There continues to be no demand for new office space in the suburbs as tenants struggle to draw employees back into the office and financing remains a challenge.

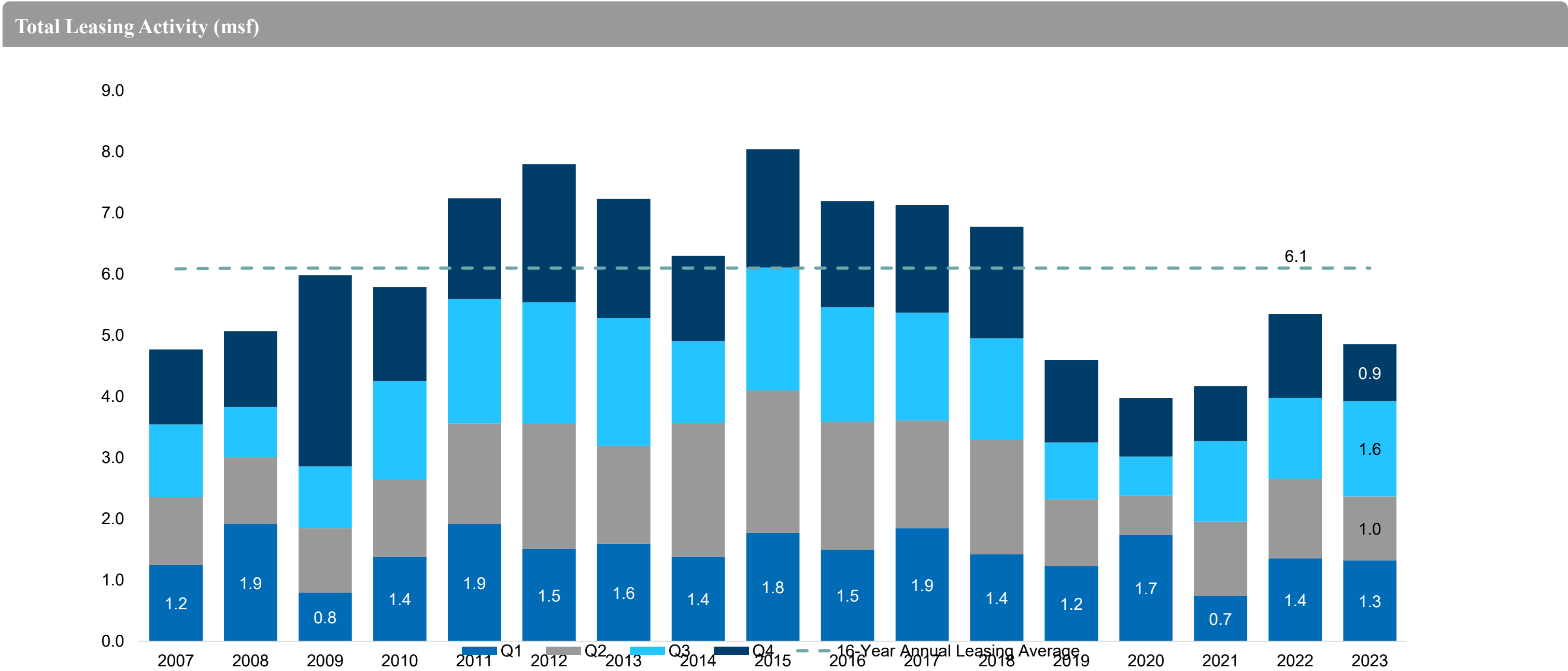
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity Records Strong Quarter

Leasing volume fell to the lowest point of the year during the fourth quarter as tenants signed leases for smaller spaces. One of the largest leases of the quarter was signed by the FAA for 110,000 square feet in the O'Hare submarket, where the government agency is downsizing by over 40%.

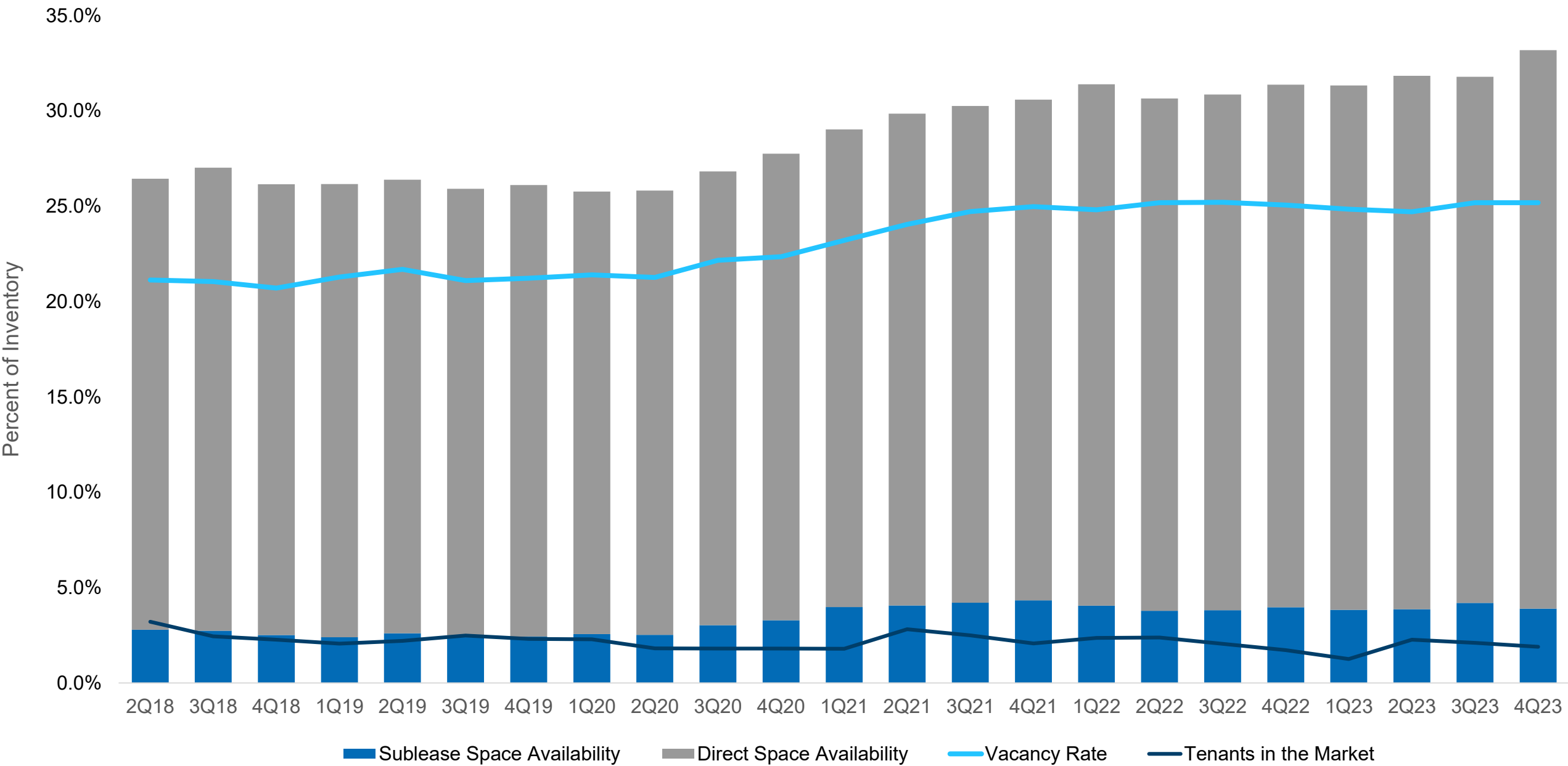


Source: Newmark Research, CoStar

Availability Holds Steady

Total availability significantly increased this quarter rising to 33.2% from 31.7% as more blocks of space are being placed on the market. Some of this increase can be attributed to sublease terms expiring and the space switching to direct availability as seen in sublease availability falling 30 basis points to 3.9%.

Available Space and Tenant Demand as Percent of Overall Market

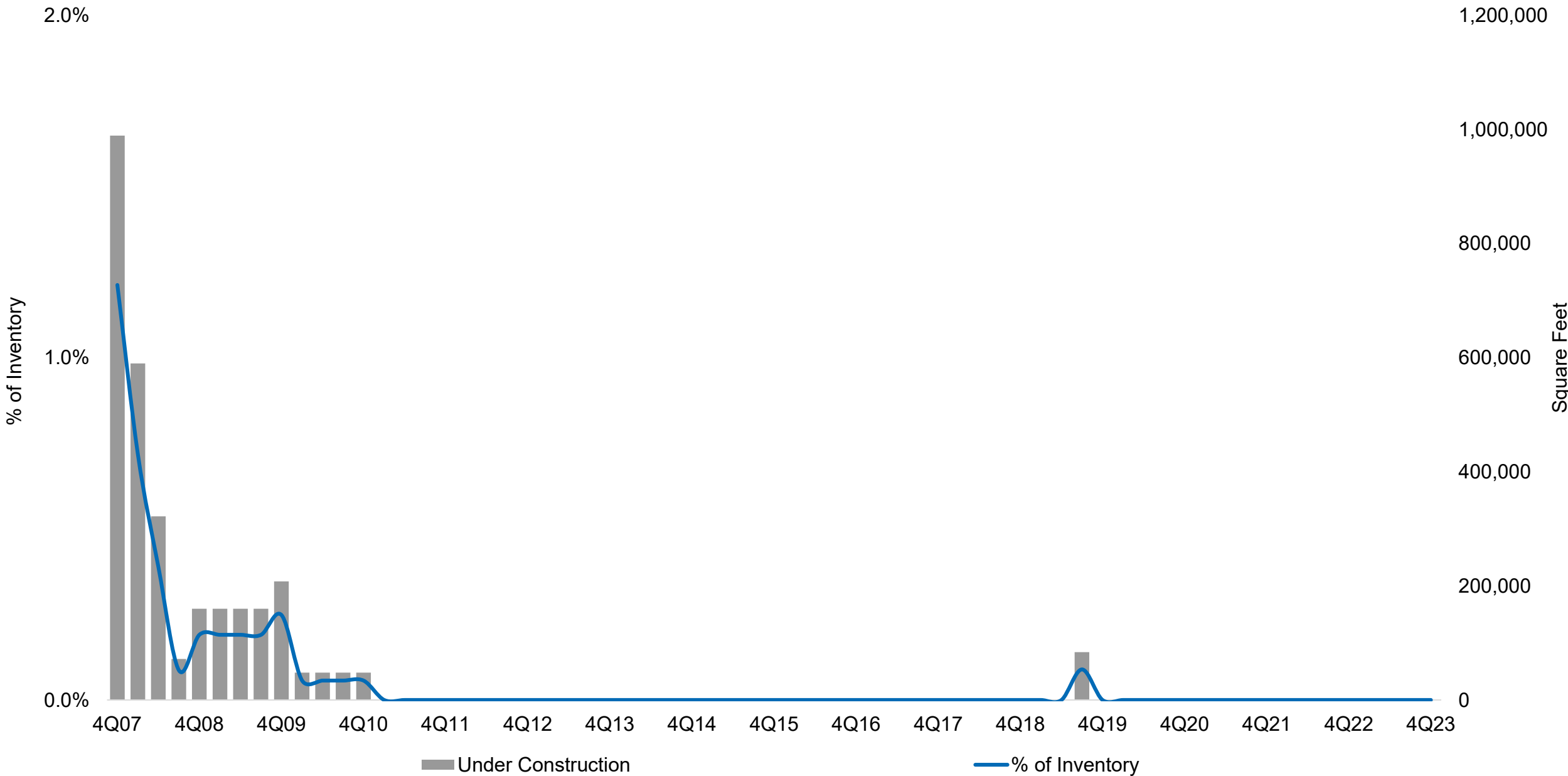


Source: Newmark Research

Developers Continue to Steer Clear of New Office Development in the Suburbs

With many second-generation office buildings stressed, demand for new office product in the suburbs remains flat.

Office Under Construction and % of Inventory

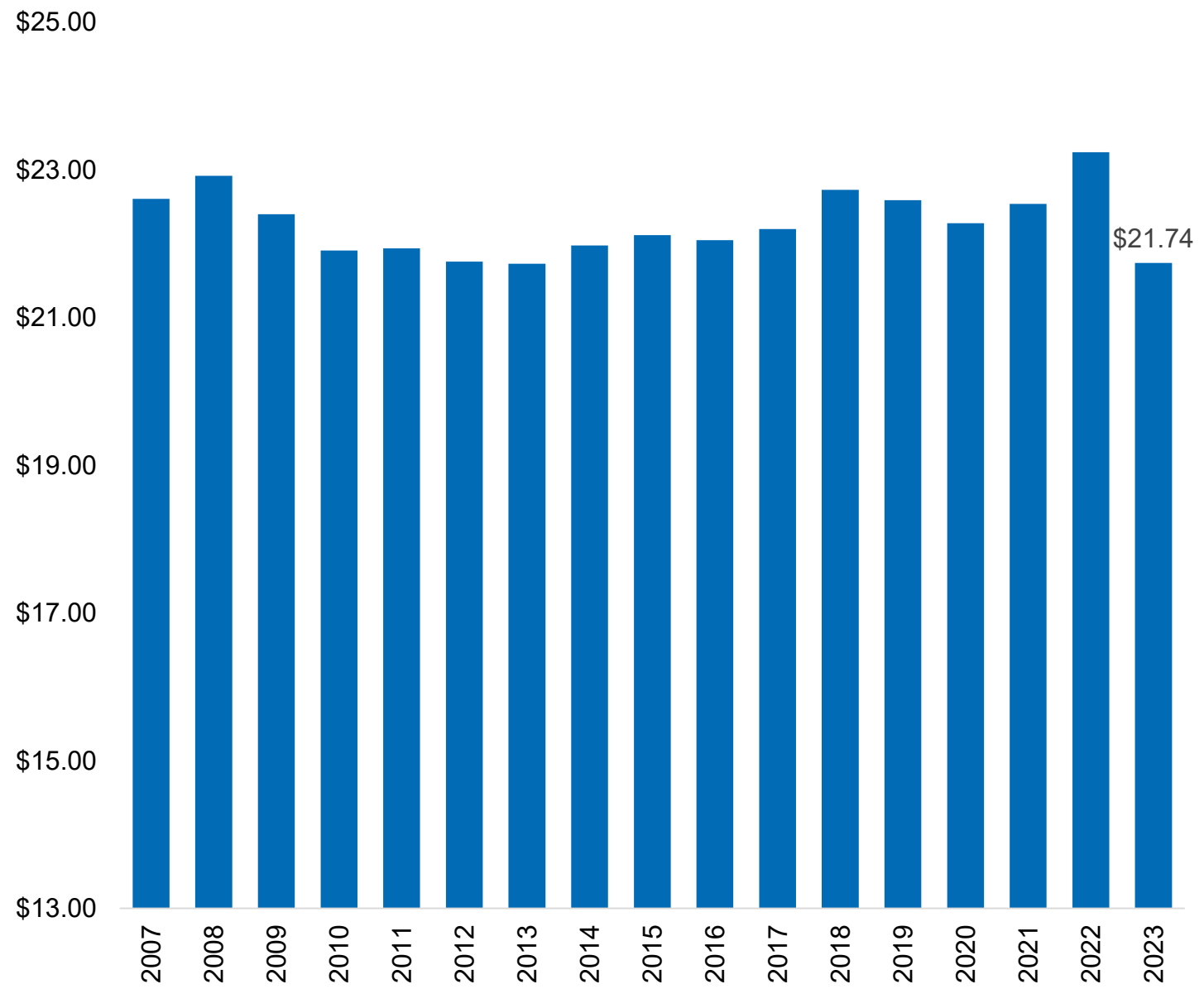


Source: Newmark Research, CoStar

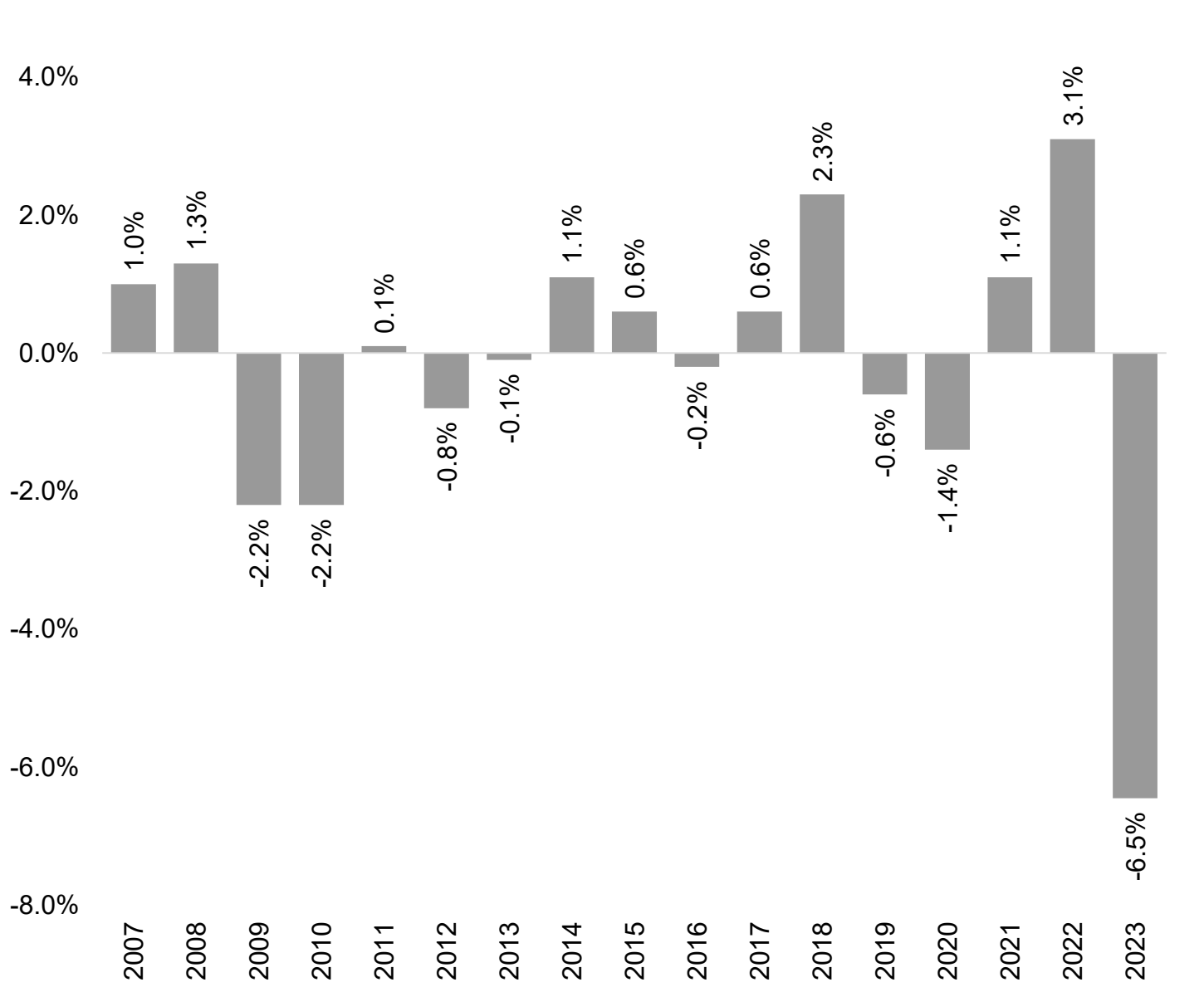
Rental Rates Fall Off Amidst Capital Challenges

Asking rates fell 6.5% in the suburbs as landlords struggle to retain capital to complete transactions. Rents are now below pre-pandemic levels due to distressed assets. Well-financed owners are still demanding pre-pandemic rents.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

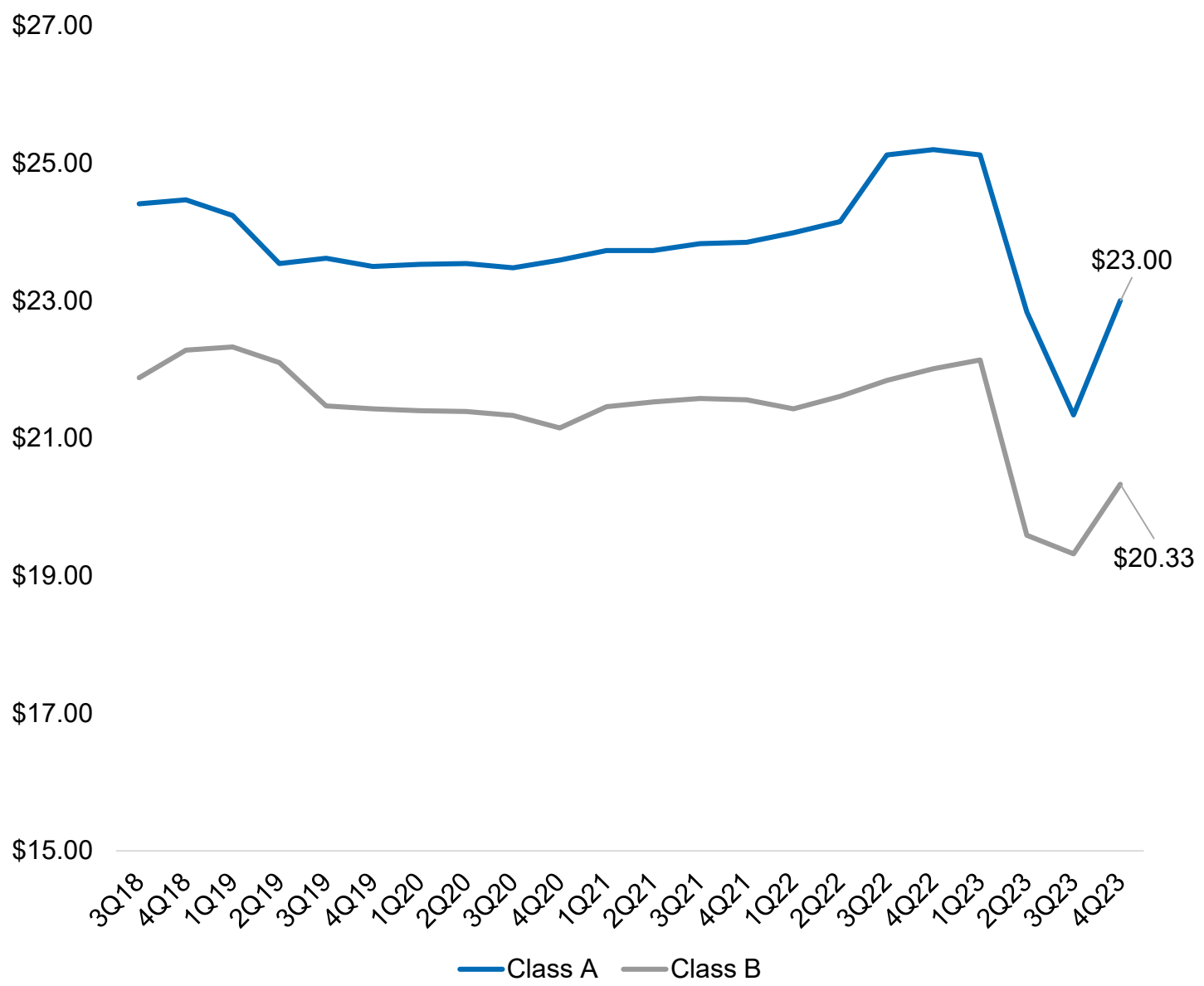


Source: Newmark Research, CoStar

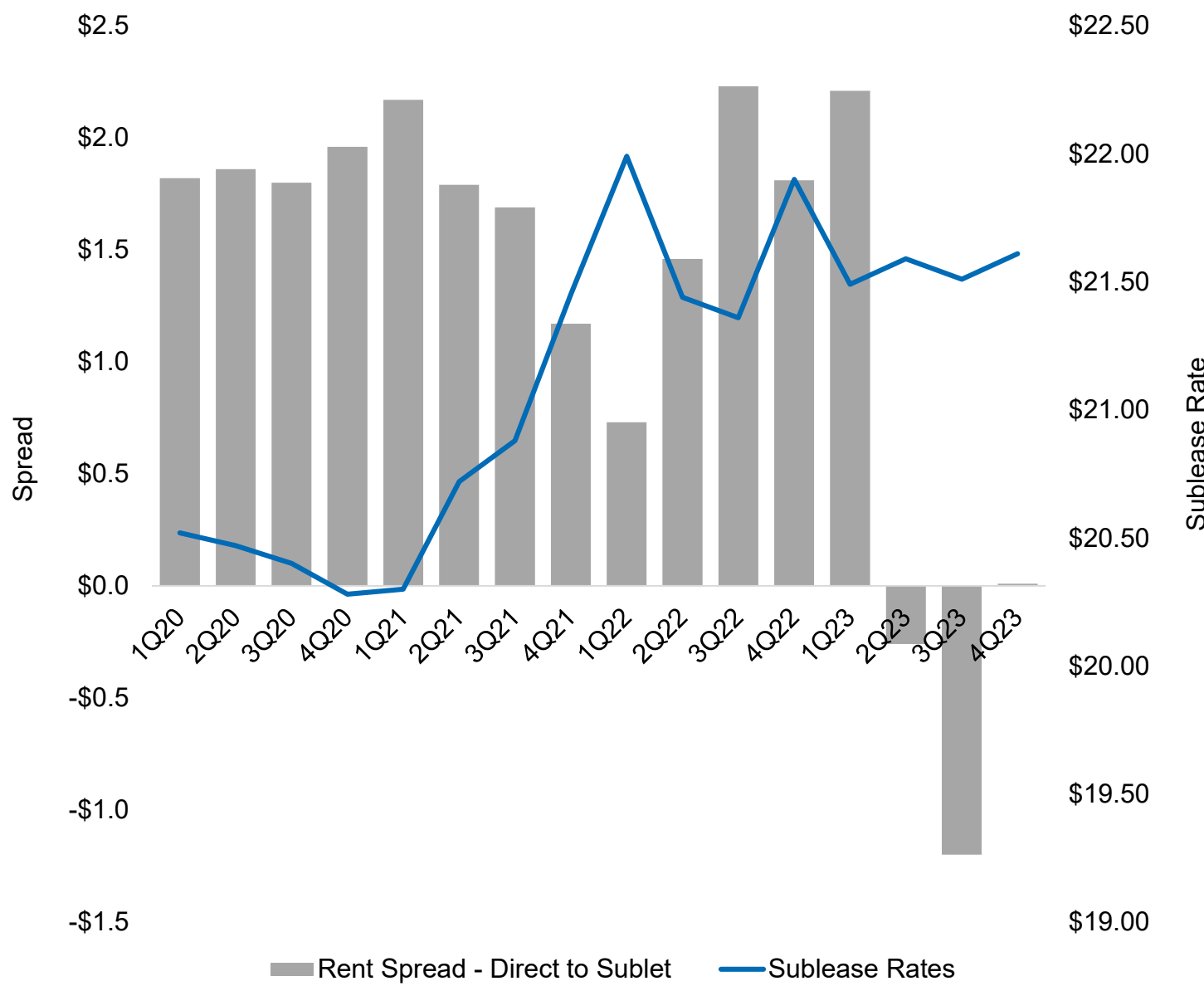
Rental Rates Increase in Q4

Rental rates increased this quarter in both Class A and Class B buildings after falling for the first three quarters of 2023. Sublease rental rates also increased.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Activity Slows

Leasing volume was up quarter over quarter, although a significant portion of the leases that did get completed had some type of contractionary component.

Notable 4Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
FAA	9600 Bryn Mawr Rd	O'Hare	Direct Lease	108,000
After signing a deal in the Northwest submarket that got canceled the FAA recommitted to 9600 Bryn Mawr, the government agency will be downsizing by 43% in its move from 2300 E Devon.				
Sasser Family Holdings	700 Commerce Dr	I-88 East	Direct Lease	64,883
Relocating from the Northwest submarket at 425 N Martingale.				
Millennium Trust Company	2001 Spring Rd	I-88 East	Lease Renewal	50,956
Wilton Brands	535 E Diehl Rd	I-88 West	Lease Extension	43,000
Abbvie	1350 E Touhy Ave	O'Hare	Lease Renewal w/contraction	30,000

Source: Newmark Research



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